

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

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SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 DODE-00

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TREASURY DEPARTMENT WASHDC

INFO USMISSION EC BRUSSELS

AMCONSUL MILAN

AMCONSUL NAPLES

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PASS FRB

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: 1977 BUDGET FORECAST SENT TO PARLIAMENT

REF: (A) ROME A-262, (B) ROME A-268, (C) ROME A-12

SUMMARY. BUDGET FORECAST FOR 1977 APPROVED BY CARETAKER COUNCIL OF MINISTERS ON JULY 29, 1976 AND SENT TO NEW PARLIAMENT. TOTAL REVENUES ESTIMATED AT 35,704 BILLION LIRE WITH TAX REVENUES ACCOUNTING FOR 32,130 BILLION LIRE, AN INCREASE OF 21 PERCENT OVER RECENTLY-REVISED 1976 TAX REVENUE ESTIMATES OF 26,610 (EXCLUSIVE OF 420 BILLION ONE-TIME COLLECTION OF ADVANCE PAYMENTS OF WITHHOLDING ON INTEREST). GOVERNMENT EXPENDITURES ANTICIPATED AT 45,553, AN INCREASE OF 24 PERCENT OVER UNREVISED 1976 EXPENDITURE FORECAST. ANTICIPATED DEFICIT FOR CENTRAL GOVERNMENT ONLY IS 9,849, A DECREASE OF 4.5 PERCENT FROM UNCLASSIFIED

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1976 FORECAST DEFICIT, AND A TOTAL DEFICIT OF 11,466

INCLUDING DEFICITS OF AUTONOMOUS AGENCIES. MINISTER COLOMBO ALSO ANNOUNCED ANTICIPATED CASH BUDGET DEFICIT OF GOVERNMENT (IMF AND EC DEFINITION) FOR 1977 AT 13,600 COMPARED TO 1976 TARGET LEVEL OF 13,800. END SUMMARY.

1. BELOW IS BRIEF SUMMARY TABLE OF 1977 BUDGET FORECAST. DETAILED BREAKDOWN BY MINISTRIES AND FUNCTION NOT AVAILABLE USUALLY UNTIL AUTUMN WHEN PARLIAMENT WILL BE EXPECTED TO BEGIN DEBATE. FIGURES ARE IN BILLIONS OF LIRE; FIGURES IN PARENTHESES ARE BILLIONS OF DOLLARS CALCULATED AT \$1.00 EQUALS 850 LIRE.

	1976	1977	C	PERCENT CHANGE
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RECEIPTS				

TAXES	23,431.6	32,130		37#
OTHER REVENUE	2,516.1	3,495		39
SALE OF PROPERTY, REIMBURSEMENTS, AMORTIZATION				
	66.4	74		11
RENEWAL TREASURY BONDS	542.0	5		99
	-----	-----	--	
TOTAL RECEIPTS	26,556.1	35,704		42#
	(\$31.2)	(\$44.4)		

EXPENDITURES				

CURRENT	29,110.4	36,322		25
CAPITAL	6,199.8	8,057		32
DEBT REPAYMENTS	1,644.0	1,174		-29
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TOTAL EXPENDITURES	36,874.2	45,553		24
	(\$43.4)	(\$53.6)		
A. GOVERNMENT DEFICIT	10,318.1	9,849		-4.5
	(\$12.1)	(\$11.6)		

B. AUTONOMOUS AGENCIES
DEFICIT (RAILROADS)

AND POST OFFICE) 1,197.5 1,617 35

TOTAL DEFICIT (A & B) 11,515.6 11,466 0.4
(\$13.5) (\$13.5)

#GOVERNMENT HAS ALSO CALCULATED TAX REVENUE INCREASE ON BASIS OF RECENTLY-REVISED FIGURE OF 27,030 BILLION LIRE FOR 1976 (VICE 23,431.6), LESS 420 BILLION LIRE OF A ONE-TIME ADVANCE COLLECTION OF WITHHELD INTEREST, GIVING REVISED ESTIMATED TAX REVENUES FOR 1976 OF 26,610 BILLION LIRE. ON BASIS THIS FIGURE, TAX REVENUE INCREASE IN 1977 WOULD AMOUNT TO ONLY 21 PERCENT. AS NO REVISED EXPENDITURE FIGURES ARE AVAILABLE, THE OVERALL 1976 BUDGET FORECAST FIGURES HAVE NOT BEEN MODIFIED.

2. AT PRESS CONFERENCE FOLLOWING RELEASE OF BUDGET FORECAST, MINISTER OF FINANCE STAMMATI FURNISHED SOME DETAILS OF COMPOSITION OF REVENUE AS FOLLOWS. (NOTE THAT 1976 ARE REVISED ESTIMATES INCLUDING ADVANCE PAYMENTS ON INTEREST INCOME.) FIGURES ARE BILLIONS OF LIRE.

	1976	1977	PERCENT CHANGE
	----	----	-----
DIRECT TAXES	12,040	13,810	14.7
INDIRECT (INCLUDING			
VAT)	9,330	12,000	28.6
TAX ON PETROLEUM			
PRODUCTS	4,300	4,700	9.3
TOBACCO	1,080	1,300	20.4
LOTTERIES	280	320	14.3
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	27,030	32,130	18.9

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3. RELEASED AT SAME TIME WAS FORECAST OF CASH BUDGET DEFICIT FOR 1977 OF 13,600 BILLION LIRE. A RECENT LAW REQUIRES THAT CASH BUDGET FORECAST BE PRESENTED TO PARLIAMENT AT FIRST OF YEAR AND TREASURY MINISTER COLOMBO NOTED THAT PRESENT RELEASE WAS IN ANTICIPATION OF COMPLIANCE WITH THAT REQUIREMENT. THE FORECAST FIGURE WOULD BE A 200 BILLION REDUCTION FROM TARGET CASH BUDGET DEFICIT AGREED TO WITH EC FOR 1976 OF 13,800 BILLION LIRE. TREASURY MINISTER NOTED THAT DOMESTIC CREDIT EXPANSION TARGET APPROVED BY INTERMINISTERIAL PLANNING COMMITTEE (CIFPE) FOR 1977 WAS SET AT 34,800 OF WHICH TRASURY REQUIREMENT WOULD ABSORB 39.1 PERCENT COMPARED TO 46.8 PERCENT OF TARGETED 1976 CREDIT EXPANSION OF 29,500 BILLION LIRE. EMBASSY COMMENT: IT MAY BE WORTH NOTING THAT ACTUAL (NOT DE-SEASONALIZED CASH DEFICIT IN FIRST FIVE MONTHS OF 1976 EQUALS 3,680 BILLION LIRE WHICH, AT ANNUAL RATE, IS WELL BELOW TARGET

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LEVEL. HOWEVER, IN 1975 TARGET LEVELS WERE MAINTAINED THROUGHOUT YEAR UNTIL END OF FOURTH QUARTER WHEN UPPER LIMIT WAS EXCEEDED WITH A VENGEANCE.

4. MINISTER COLOMBO REMARKED AT PRESS CONFERENCE THAT 1977 BUDGET FORECAST INCLUDES SPECIAL FUND FOR PROGRAMS SUBMITTED TO PARLIAMENT BY THE PREVIOUS GOVERNMENT BUT NOT YET APPROVED BY ONE OR BOTH CHAMBERS. HE POINTED OUT THAT

INCLUDED IN THIS FUND IS 700 BILLION LIRE WHICH COULD BE USED TO FINANCE THE FIRST YEAR OF AN INDUSTRIAL RECONVERSION PROGRAM IF THE NEW GOVERNMENT SHOULD SEE FIT. HE ALSO AVERRED THAT BUDGET INCLUDES ALL CURRENT EXPENDITURES REQUIRED UNDER PRESENT LAWS INCLUDING THOSE RELATIVE TO THE AUTOMATIC TRANSFERS TO LOCAL ENTITIES, BUT THAT PROPOSED NEW CENTRAL GOVERNMENT EXPENDITURES HAVE BEEN GENERALLY DEFERRED TO SOME MORE AUSPICIOUS FUTURE TIME.

5. COMMENT. RIGOROUS EFFORT HAS OBVIOUSLY BEEN MADE TO HOLD LINE ON GROWTH OF BUDGET DEFICIT. WHETHER THIS CAN IN FACT BE DONE IS SUBJECT OF SOME SKEPTICISM IN PRESS. ANTICIPATED GDP IN CURRENT LIRE UNDERLYING PREDICTIONS IS 136,000 BILLION LIRE IN 1976 AND 165,000 BILLION LIRE IN 1977, FOR AN INCREASE OF 21 PERCENT IN NOMINAL TERMS. AS WAS TO BE EXPECTED, IMPROVED DEFICIT FORECAST HAS BEEN ACCOMPLISHED PRIMARILY THROUGH ESTIMATED IMPROVEMENT ON REVENUE SIDE, RATHER THAN THROUGH LARGE REDUCTION IN EXPENDITURES. IN NOMINAL TERMS ANTICIPATED REVENUE IN 1977 WOULD APPROACH 24 PERCENT OF GDP COMPARED TO 20 PERCENT IN 1976 (USING REVISED REVENUE FORECAST) WHEREAS EXPENDITURES WOULD REMAIN NEARLY CONSTANT AT 27 PERCENT OF GDP. CREDIT EXPANSION AT RATE OF 18 PERCENT, WHILE BELOW HISTORIC GROWTH PATTERN SINCE 1970, IS NOT UNREALISTIC GOAL AND WOULD REPRESENT SLOWER RATE OF GROWTH THAN FOR NOMINAL GDP. ALSO, CREDIT AVAILABLE TO OTHER THAN TREASURY WOULD EXPAND BY 35 PERCENT, WHICH IS IN LINE WITH HISTORIC PATTERN (EXCEPTING 1974 WHICH WAS NEGATIVE AND 1976 WHICH WOULD ALSO BE NEGATIVE IF TARGET IS MET).VOLPE

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